

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Watkins Life & Benefit Association as of December 31, 2007

ORDER

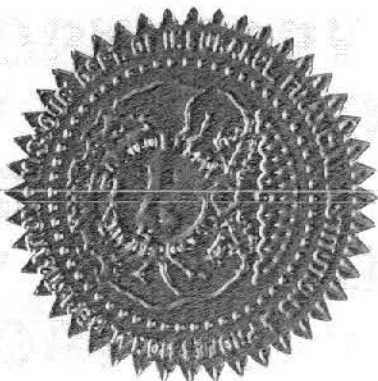
After full consideration and review of the report of the financial examination of Watkins Life & Benefit Association for the period ended December 31, 2007, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Linda Bohrer, Acting Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Watkins Life & Benefit Association, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this July 17, 2008.

Linda Bohrer

Linda Bohrer, Acting Director
Department of Insurance, Financial Institutions
and Professional Registration



REPORT OF
FINANCIAL EXAMINATION
WATKINS LIFE & BENEFIT ASSOCIATION

AS OF:

December 31, 2007



FILED
JUL 28 2008
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

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May 23, 2008
Dexter, Missouri

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, (E) Financial Condition Committee, NAIC

Honorable Merle Scheiber, Commissioner
South Dakota Division of Insurance
Midwestern Zone Secretary

Honorable Douglas M. Ommen, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sirs:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

The Watkins Life & Benefit Association

also referred to as the "Association" or as "Watkins." The examination was conducted at the Association's home office at 301 North Walnut Street, Dexter, Missouri 63841, telephone number (573) 624-3548. This examination began on May 5, 2008, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The last full scope financial examination of the Association was performed as of December 31, 2003. The current full scope financial examination covers the period from January 1, 2004, through December 31, 2007. This examination also included material transactions and/or events occurring subsequent to December 31, 2007.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration and statutes of the state of Missouri prevailed.

The workpapers of the Association's independent auditors were made available to the examiner. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments – Previous Examination

Listed below are the comments taken from the prior Report of Financial Examination as of December 31, 2003. The response or actions taken by the Association are also described below.

Corporate Records

Comment: "The Board meeting minutes do not reflect the Board's review and approval of the Report of Financial Examination as of December 31, 2000. It is recommended that the Board review and approve all Examination Reports and so indicate in the meeting minutes."

Company's Response: "Although the report was previously submitted to each Director individually for review we failed to approve the Examination. We have corrected this oversight and submitted the Examination of December 31, 2000 to the Board for approval. A special meeting was held on February 28, 2005 where the examination was reviewed and approved by the Board of Directors."

Current Findings: The minutes of the February 28, 2005, Board of Directors meeting adequately documented the review and approval of the Examination Report issued as of December 31, 2000.

HISTORY

General

The Association was organized and commenced business in April 1951, as The Watkins Life & Benefit Association of Dexter, Missouri to write life insurance in conjunction with the funeral services provided by Watkins and Sons Funeral Home. The Watkins Life & Benefit Association is an unincorporated association, which is owned by its certificate holders.

The Association operates as an assessment plan under the provisions of Chapter 377 RSMo "Assessment Plan and Stipulated Premium Plan Life Insurance."

Management and Control

The Articles of Association and Bylaws call for seven directors to serve as the Association's board. As of December 31, 2007, the Association only had six board members due to the death of a director. The directors serving as of December 31, 2007, were as follows:

<u>Name/Address</u>	<u>Affiliation</u>
Marsh Watkins Dexter, MO	Funeral Director Watkins and Sons Funeral Home
Earl N. Watkins Dexter, MO	Funeral Director Watkins and Sons Funeral Home

Michael D. Watkins Dexter, MO	Accountant Ozark Regional Foothills Planning Commission
Stephen L. Watkins Dexter, MO	Funeral Director Watkins and Sons Funeral Home
Patsy Watkins Dexter, MO	Homemaker
Dixie Watkins Dexter, MO	Homemaker

The Bylaws give the board the power to appoint an individual to fill a vacancy caused by death. The board has yet to make an appointment. The board should comply with or change its Articles of Association and Bylaws.

Officers elected and serving at December 31, 2007:

<u>Name</u>	<u>Office</u>
Michael D. Watkins	President
Stephen L. Watkins	Vice President
Marsh Watkins	Secretary
Earl N. Watkins	Assistant Secretary
Stephen L. Watkins	Treasurer
Earl N. Watkins	Assistant Treasurer

Conflict of Interest

Conflict of Interest Statements are executed annually by all directors and officers of the Association. Signed statements were reviewed for all officers and directors for each year under examination with no material conflicts indicated.

The Association has a service agreement with Watkins Agency, Inc., whereby the agency provides administrative and accounting services to the Association. The President of the Watkins Agency, Inc. is Michael Watkins, who is also the President and a member of the board of directors of the Association. The service agreement and payments made according to the agreement were reviewed and appeared reasonable.

The Association also has a general agency agreement with Watkins Agency, Inc. Watkins Agency, Inc. writes almost all the business of the Association and receives commissions on

business written. The commission payment procedures were reviewed and appear reasonable. The primary agent of Watkins Agency, Inc. is Stephen Watkins, who is an officer and member of the board of directors of the Association. During the period under examination, Michael Watkins was also an agent for Watkins Agency, Inc. In March 2008, Michael Watkins sold his book of business to Watkins Agency, Inc. and is no longer in the insurance business.

Corporate Records

The Articles of Association and Bylaws of the Association were reviewed. There were no amendments to either of these documents during the period under examination. The minutes of the meetings of the certificate holders and board of directors were reviewed for the period under examination. The minutes appeared to properly document and approve applicable corporate events and transactions.

Acquisitions, Mergers and Major Corporate Events

There were no major acquisitions or mergers affecting the Association.

Surplus Debentures

There were no surplus debentures issued or outstanding during the examination period.

AFFILIATED COMPANIES

Holding Company

The Association is not a member of a holding company system nor does it have any subsidiaries or affiliates.

FIDELITY BOND AND OTHER INSURANCE

The Association is included as a named insured on the liability portion of Watkins and Sons Funeral Home's insurance policy. The policy provides general liability coverage of \$1,000,000 and employee crime coverage of \$100,000. The Association's crime coverage of \$100,000 complies with the minimum amount of insurance suggested by the NAIC guidelines for a company of this size.

EMPLOYEE BENEFITS AND PENSION PLANS

The Association has no employees. All employee services are provided through a service agreement with Watkins Agency, Inc. Watkins Agency, Inc. provides all policy administration, accounting, claims settlement procedures and office space for the Association. The Association pays Watkins Agency, Inc. 8% of premiums written for providing these services and facilities.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The reserve requirement for the assessment plan business of the Association for 2007 was as follows:

Beneficiary fund requirement per Section 377.020 RSMo	\$30,000
Beneficiary fund requirement per Section 377.050 RSMo	<u>21,984</u>
Total Deposit Requirement	<u>\$51,984</u>

As of December 31, 2007, the Association had the following securities on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration:

<u>Type of Security</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
U.S. Treasury Note	\$75,000	\$74,896	\$75,047

This deposit was sufficient to meet the above requirements for the state of Missouri per the provision of Chapter 377 RSMo.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Association is licensed with the Missouri Department of Insurance, Financial Institutions and Professional Registration under Chapter 377 RSMo, to write assessment plan life insurance. The Association has no plans to expand into other lines of business or territories.

The Association's primary plan of operation is the writing and renewal of life insurance policies through a general agency employing one agent. The general agency and agent contracts were reviewed and appear reasonable. The agent maintains a current license with the state of Missouri to sell life insurance.

Policy Forms & Underwriting; Advertising & Sales Materials; and Treatment of Policyholders

The Association has properly filed its forms with the Missouri Department of Insurance, Financial Institutions and Professional Registration; the most recent filing was in 1988. The Association has no formal marketing procedures. Most business is obtained through additional insurance from current certificate holders. New customers are usually gained through word of mouth advertising.

The Missouri Department of Insurance, Financial Institutions and Professional Registration has a market conduct staff that performs a review of these issues and generates a market conduct report. However, no market conduct examination has ever been performed on the Association. The Association does not maintain a complaint register because it has never had a complaint.

This is mainly due to the nature of the policies, which provide no exclusions for payment of death benefits. The only reason for denial would occur when inaccurate information is reported in the original application.

REINSURANCE

Assumed

The Association does not assume any reinsurance business from other companies.

Ceded

The Association does not cede any reinsurance to other companies.

ACCOUNTS AND RECORDS

The Association's accounting records are maintained on a PC based system consisting of Filepro+ Database software. The Association keeps a detailed general ledger and produces quarterly financial statements. The trial balance and general ledger reports for the years under examination were traced to the Association's Annual Statements. Accounting records appear to be reliable. The Association is audited annually by Van de Ven, LLC.

The 2007 CPA audit workpapers were reviewed. These workpapers were utilized in the course of this examination as deemed appropriate.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Association as of December 31, 2007, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only noted in the workpapers for each individual annual statement item.

ASSETS

	Ledger and <u>Non-ledger</u>	<u>Non-Admitted</u>	<u>Admitted</u>
Bonds and Stocks	\$ 291,007	\$ 5,693	\$ 285,314
Cash	54,543		54,543
Accrued Interest on Investments	3,388		3,388
Market Value of Stocks over Book Value	341		341
Assessments Due and Unpaid	<u>64</u>	<u>64</u>	<u>-</u>
Total Assets	<u>\$ 349,343</u>	<u>\$ 5,757</u>	<u>\$ 343,586</u>

LIABILITIES AND RESERVES

Claims Incurred in the Current Year, Reported in Following Year	\$ 500
Advance Premiums or Assessments	<u>17,804</u>
Total Liabilities	<u>\$ 18,304</u>
Emergency Fund Reserve	\$ 21,984
Guaranty Fund Reserve	30,000
Unassigned Fund Reserve	<u>273,297</u>
Total Reserves	<u>\$ 325,282</u>
Total Liabilities and Reserves	<u>\$ 343,586</u>

INCOME AND DISBURSEMENTS

Membership Fees / Assessments	\$ 59,496
Net Investment Income	<u>22,013</u>
Total Income	<u>\$ 81,508</u>
Death Claims	\$ 79,100
Commissions & Fees Paid to Agents	4,237
Salaries & Compensation to Officers & Employees	8,260
Taxes, Licenses & Fees	520
General Expenses	5,879
Gross Loss on Sale of Bonds	<u>410</u>
Total Expenses	<u>\$ 98,407</u>
Net Operating Income/(Loss)	<u>\$ (16,898)</u>
2007 Examination Changes	-
Restated Net Operating Income/(Loss)	<u>\$ (16,898)</u>

NOTES TO FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Corporate Records

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The Articles of Association and Bylaws call for seven directors to serve as the Association's board. As of December 31, 2007, the Association only had six board members due to the death of a director. The Bylaws give the board the power to appoint an individual to fill a vacancy caused by death. The board has yet to make an appointment. The board should comply with or change its Articles of Association and Bylaws.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by Watkins Life & Benefit Association during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)

) ss

County of St. Louis)

I, Karen J. Milster, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Association, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiner finds reasonably warranted from the facts.

Karen Milster

Karen J. Milster, CPA, CFE
Financial Examiner

Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 13 day of May, 2008.

My commission expires:

March 30, 2012

Rachel Mayes

Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Christiana Dugopolski

Christiana Dugopolski, CPA, CFE
Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration

Watkins Life & Benefit Association

P O Box 96
Dexter, MO 63841

Phone: 573 624 3548

FAX: 573 624 3549

email:

info@watkinsfuneralhome.com

Wednesday, July 16, 2008

Missouri Dept. of Insurance
Attn: Fred Heese - Fax: 573-751-5888
Jefferson City, MO 65102

RE: Examination Issue for Watkins Life & Benefit Association

As a result of the examination you have requested us to establish a policy that would insure two check signers for any checks written over the amount of \$5000.00. We will be establishing that policy.

I will make contact with our banking institution to institute this and will write a formal policy for the association.

Should you have any questions or need any other information please feel free to contact me at any time.

Stephen Watkins, CFSP, Vice-President